

SINGLE AUDIT ACT REQUIREMENTS

SECTION 300

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I. SINGLE AUDIT ACT REQUIREMENTS

OMB CIRCULAR A-133

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The Office of Management and Budgets (OMB) issued a final revision to OMB Circular A-133 titled: "Audits of States, Local Governments, and Non-Profit Organizations," which is effective for audits of fiscal years beginning after June 30, 1996 and rescinds OMB Circular A-128 "Audits of States and Local Governments". OMB Circular A-133 was released to the public on June 24, 1997. It establishes uniform audit requirements for non-Federal entities that administer Federal awards and implements the Single Audit Act Amendments of 1996 (Act) that were signed into law as Public Law (Law) 104-156 on July 5, 1996. This Law was enacted by the 104th Congress to streamline and improve the effectiveness of chapter 75 of title 31, United States Code (commonly referred to as the "Single Audit Act").

Under the new rules, recipients are required to procure a single audit only if they spend \$300,000 or more in a fiscal year. Recipients and subrecipients spending less than \$300,000 are exempt from the single audit requirement. Additionally, the cost of a single audit performed on an exempt entity is an unallowable cost for reimbursement with federal funds. If the recipient continues to require single audits from subrecipients receiving less than \$300,000 in Federal awards, the recipient must pay for the audit with nonfederal funds.

In May 1998, OMB issued its latest revision to Circular A-133 Compliance Supplement (Supplement). This Supplement is effective for audits of fiscal years beginning after June 30, 1998, and supercedes the OMB Circular A-133 Compliance Supplement (Provisional) issued in June 1997, and the Compliance Supplements "Audits of States and Local Governments", issued in 1990, and "Audits of Institutions of Higher Learning and Other Non-Profit Organizations", issued in 1991.

The AICPA issued related single audit guidance for auditors in Statement of Position (SOP) 98-3, "Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards" released on March 17, 1998, and a non-authoritative Audit and Accounting Guide, "Not-for-Profit Organizations" released on May 1, 1997.

In February 1999, the President's Council on Integrity and Efficiency 1999 Edition issued the Exposure Drafts entitled, "Uniform Initial Review Guide for A-133 Audits" and "Uniform Quality Control Review Guide for A-133 Audits".

Child Nutrition and Food Distribution Division Management Bulletin No. 97-601, issued November 1997, contains the revised audit provisions for OMB Circular A-133, the Data Collection Form, and Annual Audit Status Certification (AASC) Form and summarizes the more significant audit requirements for Child and Adult Care Food Program (CACFP) agencies. This bulletin has superceded Policy Memorandum EXAU P91-002.

RELEVANT DEFINITION

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1. Single Audit - An audit conducted by an independent auditor of all funds received by an organization, inclusive of federal, state, local, and private funds in accordance with the provisions in section 7502 (d) of the Act and OMB Circular A-133 of the Federal Register, volume 61, number 84. The audit requirement applies to CACFP, SNP, SFSPC, USDA-Donated Food Commodities, CDD's Federal Block Grants, and EAU's Migrant Education awards. This would include any agencies expending (rather than receiving) \$300,000 or more of Federal awards in a fiscal year. Every two years the Director of the Office of Management and Budget (Director) can adjust such dollar amount upwards, but not below \$300,000.
2. Organizationwide Audit (OWA) - A term synonymous for a single audit. (See above)
3. Program-Specific Audit – A compliance audit covering only one specific federal program where a nonprofit institution has expended \$300,000 or more and received awards under this program, and is not otherwise required to have a financial statement audit.

FOR-PROFIT SUBRECEIPIENTS

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Specifically, Section 210, Subrecipients and vendor determinations, states that federal awards expended by for-profit entities as a recipient or a subrecipient of federal awards are subject to single audit requirements. Accordingly, the pass-through entity is responsible for establishing requirements to ensure compliance by for-profit subrecipients. Refer to **SECTION 510** of this audit guide for more details.

AUDIT REQUIREMENTS

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1. \$300,000 Base - If \$300,000 or more is expended, the non-federal entity must have a single audit or program-specific audit.
2. Program-Specific Audit - When a non-federal entity expends more than \$300,000 under only one program, it may elect to have a program-specific audit.
3. Exemption - Non-federal entities that expend less than \$300,000 of Federal awards are exempt from Federal audit requirements, but they must maintain records.

EXEMPTION TO THE SINGLE AUDIT REQUIREMENTS

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1. Nonprofit institutions sponsoring a CACFP, SNP, SFSPC, USDA Donated Food Commodities program or AEU that expend less than \$300,000 a year in federal financial assistance are **exempt** from Federal audit requirements for that year. However, records must be available for review or audit by the California Department of Education, appropriate officials of the Federal grantor or subgranting entity, and General Accounting Office.

EXEMPTION TO THE SINGLE AUDIT REQUIREMENTS

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2. Each state and local government, Indian tribal council, or school district sponsoring a CACFP, SNP, SFSPC, USDA Donated Food Commodities and ABE program that expends less than \$300,000 a year in total federal financial assistance is **exempt** from Federal audit requirements for that year. However, records must be available for review or audit by the California Department of Education, appropriate officials of the Federal grantor or sub-granting entity, and General Accounting Office.
3. Military bases are included under this exemption.

MAJOR PROGRAM DETERMINATION WITH RESPECT TO 7 CFR

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Part 3052 (Audits of States, Local Governments, and Non-Profit Organizations):

The old rules required the auditor to consider only the dollar amount the agency received under each program. The new rules establish a process that entails consideration of the above risk factors and those described in 7 CFR Section 3052.525. A program under which the agency's Federal expenditures reach or exceed a threshold set at 7 CFR Section 3052.520(b) is known as a "Type A program". The auditor identifies Type A programs solely by dollars expended. Programs not classified as Type A are "Type B programs". Using professional judgment, the auditor identified Type A and Type B programs as high or low risk on the basis of risk factors such as those stated in 7 CFR Section 3052.525. The auditor may then elect not to test certain low risk Type A programs for compliance and substitute high-risk Type B programs. This risk analysis process detailed in 7 CFR Section 3052.520(b) through (f). Section 3052.520(g) requires the auditor to document the process in the working papers.

LIMITED SCOPE AUDITS FOR SUBRECEIPIENTS WITH FEDERAL AWARDS EXPENDED OF LESS THAN \$300,000 ANNUALLY:

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The 1996 Amendments, Section 7505 (b) (1) (A) (ii) prohibit a non-federal entity from charging to a federal award the cost of an OMB Circular A-133 audit when the amount of Federal awards expended is less than \$300,000 per year, except that OMB may allow the cost of limited scope audits to monitor sub-recipients. Furthermore, sub-recipients that expend less than \$300,000 in Federal awards annually cannot charge any Federal awards the cost of any audits, attestation engagements and financial statement audits in accordance with GAAS or GAGAS as allowable costs.

SUBRECEPIENT MONITORING

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The 1996 Amendments, section 7502 (f) (2) (b) require pass-through entities, such as CDD, NSD and ABE, to monitor a sub-recipients that expend less than \$300,000 in Federal awards through site visits, limited scope audits, or other means.

Audit Guide -

1. If a program-specific audit guide is available from the Office of the Inspector General (OIG):
 - a. Follow Generally Accepted Governmental Auditing Standards; and
 - b. Follow the guide (see **APPENDIX E**, for OIG's Audit Guides).
2. If a program-specific audit guide is not available:

The auditee and auditor must treat the program as a **major** program.

COMPLIANCE SUPPLEMENT (APPENDIX C):

The Compliance Supplement (Supplement) is based on the requirements of the Act and OMB Circular A-133 to assist auditors in performing the required audits. The Supplement also provides guidance to assist auditors in determining compliance requirements relevant to the audit, audit objectives, and suggested audit procedures for programs not identified and included in the stand-alone sections of Part 4, Agency Program Requirements of the Supplement. For single audits, this Supplement replaces agency audit guides and other audit requirement documents for individual Federal programs.

Compliance Requirements Applicable to Major Federal Awards:

There are fourteen (14) requirements in the Compliance Supplement that involve significant national policy for which failure to comply could have a material impact on an organization's financial statements.

The above mentioned compliance requirements are as follows:

1. Activities allowed or unallowed
2. Allowable costs/cost principles
3. Cash Management
4. Davis-Bacon Act
5. Eligibility
6. Equipment and real property management
7. Matching, level of effort, earmarking
8. Period of availability of federal funds
9. Procurement and supervisor and debarment
10. Program income
11. Real property acquisition and relocation assistance
12. Reporting
13. Sub-recipient monitoring
14. Special tests and provision

See **MATRIX, APPENDIX C** for the types of compliance requirements that are applicable to the relevant major federal programs that are covered in this guide

Please note: CFDA # 10.550

Compliance requirements for USDA donated food commodities are covered under the compliance type N, “Special Tests and Provision” under CFDA 10.558 CACFP.

FEDERAL PROGRAMS NOT INCLUDED IN THE SUPPLEMENT**316**

The Supplement does not include all federal programs from which an auditee may receive federal awards. The Compliance Supplement is being updated every year with additional federal programs. OMB Circular A-133 states that for those federal programs not covered in the Supplement, the auditor should use the fourteen types of compliance requirements above as guidance for identifying the type of compliance requirements to test. The auditor should determine the requirements governing the federal program by reviewing the provisions of contracts and grant agreements and the laws and regulations referred to in such contracts and grant agreements. The auditor should then follow the guidance in part 7 of the Supplement for identifying the applicable compliance requirements to test and report on in a single audit.

For major programs not included in the Supplement:

The auditor should follow the guidance in Part 7, “Guidance for Auditing Programs Not Included in This Compliance Supplement”, and use the 14 types of compliance requirements in Part 3, “Compliance Requirements”, of the Supplement to identify the applicable compliance requirements that could have a direct and material effect on the program.

USDA PROGRAMS NOT INCLUDED IN THE SUPPLEMENT ARE DEEMED TO BE OTHER CLUSTERS**317**

Part 5, Clusters of Programs, of the Supplement identifies those programs that are considered to be clusters of programs as defined by the OMB Circular A-133. A cluster of programs is defined as Federal programs with different CFDA numbers that are denied as a cluster of programs because they are closely related programs that share common compliance requirements. This Part also defines other clusters of programs that are not identified in Part 4 of the Supplement. The auditor must determine the compliance requirements to test in accordance with Part 7. Page 5-4-1 of the Supplement lists the following programs:

Nutrition Cluster**CFDA No:**

10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.558	Child and Adult Care Food Program (includes USDA Donated Food
10.559	Commodities, 10.550)
10.559	Summer Food Service Program for Children
84.02	Adult Education - State Grant Program

AICPA's SOP 94-3, "Reporting of Related Entities by Not-for-Profit Organizations", requires presentation of consolidated financial statements be prepared when one not-for-profit organization (NPO) (the parent) controls the voting majority of the Board of Directors of and has an economic interest in another NPO identified as one of NSD's sponsors and or CDD's and ABE's agencies. If the regulations of the Federal agency that provides Federal awards to the parent define the entity for single audit purposes to consist of only the parent, audited parent-only financial statements must be submitted to comply with these regulations. If consolidated financial statements are not also prepared as required by GAAP, the auditor should consider whether other than an unqualified opinion due to material departure from GAAP should be expressed on the parent-only financial statements. An example of this includes University associations and foundations that provide child care and participate in the CACFP, SNP or AEU.

Not-for-Profit Organizations Associated with For-Profit Entities

OMB Circular A-133 does not apply to for-profit subrecipients. See **Audit Report MATRIX, SECTION 270** for the reporting requirements. Examples include management companies that administer the operation of CDP and ABE in the centers of non-profit CDD and ABE agencies.

CERTIFICATION OF FEDERAL FUNDING SOURCES**319**

"All NSD sponsors, and Federally-funded CDD and ABE agencies are required to submit an Annual Audit Status Certification (AASC) Form which is included with the reporting package each year, attesting to the total anticipated amount of federal financial assistance received from all combined sources during the fiscal year. The deadline for the submission of this form is the same as the deadline for submitting the annual renewal package. Failure to submit the AASC Form may result in a suspension of program reimbursement until such time as the properly completed form is received.

If a sponsor or agency should discover that actual Federal financial assistance received for the fiscal year from all combined sources differs from what was originally reported causing a change in the sponsor's reporting requirement, the sponsor is responsible for submitting a revised AASC Form immediately to AID.

Identification of Federal Funding Sources and Amounts

To determine whether the total annual Federal reimbursement (from all combined Federal award sources) is equal to or in excess of \$300,000, each institution must consider and include all funds and the fair market value of any commodities (determined from the yearly Entitlement Report) received as a result of its participation in Federal programs during the fiscal year (e.g., CACFP, USDA Donated Food Commodities, National School Lunch, School Breakfast, Special Milk, Summer Food Service Programs for Children, Head Start, Housing and Urban Development, Adult Basic Education (ABE), Citizenship (ESL), Migrant Education, etc.)

If an institution is unsure of the total amount of federal funds awarded from a state, county, or municipal agency, it must contact that government agency and request information regarding funding amounts, or request a percentage amount of dollars to determine whether it is required to submit a single audit.

DETERMINATION OF THE AUDIT PERIOD

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A. Fiscal Year and Program Period Differ:

An audit performed in accordance with OMB Circular A-133 should cover the agency's financial transactions (including transactions related to Federal awards) for its fiscal year (or a two-year period, if allowed by OMB Circular A-133), which is not necessarily the same as the period of the program being funded. Therefore, the audit could include only a part of the transactions of the Federal award because some transactions may not occur within the period covered by the audit.

B. Stub Periods:

A stub period is that period between a program-specific audit's June 30th award year and single audit's fiscal year end date. Thus, the stub period is the period that is unaudited if arrangements are not made to meet the audit requirements for Federal expenditures.

A stub period occurs for either of the following conditions:

1. Agency converts from a program-specific audit to a single audit, or
2. Agency changes audit periods.

To ensure that the audit requirements are met for Federal expenditures during the stub period, either of the following arrangements should be undertaken:

1. Separate audit of the stub period, or
2. Include expenditures of the stub period with the following period's OMB Circular A-133 audit.

II. SINGLE AUDIT REPORTING REQUIREMENTS

PCIE QUALITY CONTROL REVIEW QUESTIONNAIRE

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This section is intended as a guide for auditors for applying the reporting requirements in a Single Audit. The auditor has additional supplemental reporting requirements for single audits of the Child Nutrition, Child Development and Adult Basic Education programs.

AID has taken the Presidents Council on Integrity and Efficiency (PCIE) checklist approach for its desk reviews of single audits.

APPENDIX D includes a Checklist/Questionnaire used by AID in its annual desk review of the single audit reports issued under OMB Circular A-133, as applied to CDE programs.